Analysis of the Impact of Increased Prices of Basic Necessities on Per Capita Income in Indonesia

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Analysis of the Impact of Increased Prices of Basic Necessities on Per Capita Income in Indonesia: A Review from a Domestic Economic Perspective

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Abstract

The increase in prices of basic necessities has a significant impact on a country's per capita income. This research aims to analyze the impact of rising prices of basic necessities on per capita income in Indonesia, with an emphasis on the domestic economic perspective. The panel data regression analysis method is used to evaluate the relationship between increases in prices of basic necessities and per capita income, by controlling for various other economic and demographic factors. The research results show that the increase in prices of basic necessities has a real influence on per capita income in Indonesia. A decrease in purchasing power due to an increase in the price of basic necessities can reduce the real income of individuals and families, which in turn affects overall per capita income. The impact is felt especially among households with low income levels.

Other factors such as inflation, economic growth and government policies also play a role in determining the impact of rising prices of basic necessities on per capita income. Therefore, there is a need for appropriate policies to effectively manage rising prices of basic necessities, including steps to control inflation, strengthen the social protection system, and increase economic productivity. In conclusion, the increase in prices of basic necessities has significant implications for per capita income in Indonesia. A holistic and sustainable approach is needed in formulating economic policies that can overcome these challenges, taking into account various external and internal factors that influence domestic economic dynamics.

Keywords: Increase in prices of basic necessities, per capita income, domestic economy, economic impact and inflation.

INTRODUCTION

The impact of rising prices of basic necessities on per capita income in Indonesia has been analyzed from a domestic economic perspective. Several factors have been considered in this analysis. One study found that inflation and growth in Gross Regional Domestic Product (GRDP) had a significant negative effect on per capita income, while the Human Development Index (HDI) and the minimum wage had a significant positive effect [1]. Another study highlights the negative impact of rising fuel prices on the economy, leading to unemployment, higher prices of basic necessities, increased production costs, inflation, and a decrease in real wages and household consumption [2]. In addition, the indirect effect of debt and net exports on inflation through the exchange rate was found to be positive and significant, while the direct effect of debt and net exports on inflation was negative and insignificant [3]. Furthermore, the effects of Gross Domestic Product (GDP) per capita and exchange rate on imports of consumer goods were found to be positive and negative, respectively [4]. Finally, increases in fuel prices and basic electricity tariffs were found to significantly influence household income inequality and poverty in Indonesia [5].

An increase in the price of basic necessities, such as food and fuel, can have a direct impact on people's purchasing power and per capita income [6]. This impact is not only felt at the individual or household level, but also at the national economic level, because it can affect overall economic growth [7]. Analysis of the impact of rising prices of basic necessities on per capita income in Indonesia must consider various factors, such as government policy, inflation rate, economic growth, and the socio-economic structure of society [8]. A study aimed to carry out an in-depth analysis of this impact, using panel data regression methods to investigate the relationship between increases in prices of basic necessities and per capita income, while controlling for other relevant variables [9]. The results of this research can provide valuable insight for the formulation of effective economic policies in facing the challenge of rising prices of basic necessities in Indonesia [10].

The increase in prices of basic necessities in Indonesia has an impact on per capita income, especially from a domestic economic perspective. Research conducted by Saputri and Udjianto found that economic growth and education have a negative and significant effect on the level of poverty gap, which can indirectly affect per capita income [11]. In addition, Ahsan and Kelly's research shows that health status, including body weight, can influence income. Overweight men in Indonesia experience an income premium, while underweight women experience an income penalty [12]. These findings highlight the importance of addressing economic inequality and health disparities to increase per capita income. However, there is a need for further research to specifically analyze the impact of rising prices of basic necessities on per capita income in Indonesia from a domestic economic perspective.

This research aims to analyze the complex interaction between rising prices of basic necessities, inflation and per capita income. By understanding the relationship between these variables, it can be understood how changes in the price of basic necessities affect per capita income directly or through the influence on the inflation rate. This is important to help economic and social policies in Indonesia to be able to manage the negative impact of rising prices of basic necessities on people's welfare and overall economic stability.

Research Methology

The variables in this research consist of price increases as an exogenous variable, inflation as an intervention variable, and per capita income as the dependent variable. Rising prices, or inflation, can have complex and significant effects on individuals, businesses, and the economy. Understanding the factors that influence price increases and their implications is very important for formulating appropriate economic policies. Inflation is usually measured using the Consumer Price Index (CPI), which tracks changes in the prices of goods and services commonly consumed by households. It is usually expressed as an annual percentage change, indicating the percentage increase in prices compared to the previous year [31].

Controlling inflation is the main focus of government monetary policy to maintain economic stability and social welfare [32]. High and uncontrolled inflation can cause a decrease in purchasing power, a decrease in the value of money, and economic instability. Per capita income is an important indicator of economic well-being, reflecting improvements in living standards and societal well-being [33]. However, it does not directly reflect the distribution of income in a population. A country with a high per capita income may still have large income gaps among its citizens.

Per capita income is an important indicator used by governments to evaluate economic performance, design social and economic programs, and measure the impact of implemented economic policies [34]. It is often compared between countries or regions to assess relative well-being and economic progress in a global context [35]. The government uses per capita income data to make informed decisions in economic policy planning [36].

Research Approach

The research approach to analyzing the impact of rising prices of basic necessities on per capita income in Indonesia from a domestic economic perspective is quantitative research. Quantitative research will allow us to use empirical data to directly measure the relationship between rising prices of basic necessities and per capita income, as well as other domestic economic factors that influence it. In this approach, statistical data and numbers will be used to identify trends, measure impact, and produce reliable findings. The data used in this research is secondary data for 3 years, namely 2021 to 2023.

Data analysis technique

Multiple Regression Analysis. This technique can be used to identify other factors that influence per capita income apart from increases in prices of basic necessities. By controlling other relevant variables, multiple regression analysis allows researchers to understand the impact of rising prices of basic necessities in more depth.

SEM-PLS (Structural Equation Modeling-Partial Least Squares) analysis is a statistical method used to model and analyze the relationships between variables in a structural model. This method can be used to test causal relationships between theoretical constructs, as well as measure the strength and statistical significance of these relationships.

Results and Discussion

Results

Structural Equation Modeling with Partial Least Squares is the research methodology used to evaluate this research (SEM-PLS). Version 3.0 of SmartPLS is the PLS program used in this research, the SEM-PLS output is presented in Figure 1

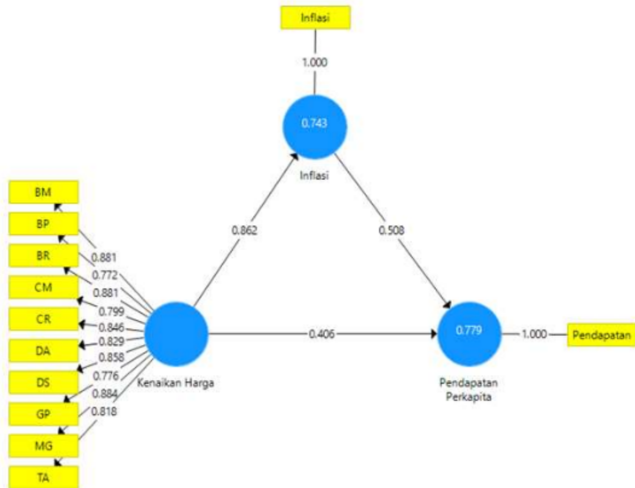

Figure 2. PLS SEM results
Source: Processed data, 2024

Hypothesis Testing Results

Causality is established in the model in particular, the impact of the independent variable on the dependent variable is tested through hypothesis testing. By examining the t-statistical test results and probability values, it is possible to determine the hypothesis testing requirements (p-value). If the p-value is smaller than 0.05 (significance = 5%) or the t-statistic value exceeds the t-table, then the hypothesis can be accepted (2,000). The bootstrap approach can be used to obtain t-statistics for PLS analysis.

Table 2. Hypothesis Testing Results

Variable	**Path Coefficient**	**T-Statistics**	***P-Value***	**Results**
Price increases→Income per capita	0.406	2,032	0.043	Significant
Price increases→Inflation	0.862	17,210	0,000	Significant
Inflation→Income per capita	0.508	2,484	0.013	Significant
Price increases→Inflation→Income per capita	0.438	2,624	0.009	Significant

Source: Processed data, 2023.

Based on Table 2, the path coefficient value for price increases on per capita income is 0.406 and the p value is 0.043, which means it is less than the significance value of 0.05. Thus, it can be statistically concluded that price increases have an impact on per capita income, so that the first hypothesis is statistically accepted.

The coefficient value of the path of price increases to inflation is 0.862, and the p-value of 0.000 is less than 0.05. Thus, it can be concluded that inflation has an impact on inflation, so that the second hypothesis is statistically accepted.

The coefficient value of the inflation path on per capita income is 0.508, and the p-value is 0.012, less than 0.05. Thus, it is concluded that inflation has an impact on per capita income, so that the third hypothesis is statistically accepted.

In testing the impact of price increases on capital income mediated by inflation, a path coefficient value of 0.438 was obtained, and a p-value of 0.037 was less than 0.05. Thus, it can be concluded that price increases have an impact on capital income mediated by inflation, so that the fourth hypothesis is statistically accepted.

Discussion

The Impact of Price Increases on Per Capita Income

The impact of price increases has a significant effect on per capita income. The impact of price increases on per capita income can vary depending on a number of factors. One of the main factors is how fast and how high the price itself rises. If price increases occur slowly and steadily, then the impact may not be very significant on per capita income. However, if price increases occur suddenly or in large amounts, the impact could be more pronounced on per capita income. An increase in per capita income will result in an increase in the percentage of Indonesia's economic growth [37].

An increase in prices can encourage producers to increase production of goods and services because they can earn greater profits from the sale of their products. Thus, increasing production can create new jobs and increase income for workers, thus contributing to increasing per capita income. Price increases can also increase revenue for the company. When the selling price of their product or service increases, the company's revenue also increases. Part of this additional income can be allocated as bonuses for employees or dividends for shareholders, which can ultimately increase per capita income in society. Although rising prices may reduce purchasing power initially, in the long run, increasing per capita income can encourage greater consumption. People with higher incomes tend to have a greater ability to purchase goods and services, which in turn can encourage economic growth and increase per capita income. Controlled and sustainable price increases can stimulate healthy economic growth. This can create new business opportunities, support certain industry sectors, and increase investment. All of these factors can lead to an increase in per capita income due to increased production, employment and overall economic prosperity.

Impact of Price Increases on Inflation

The impact of price increases has a significant effect on inflation. Rising prices are one of the main causes of inflation. Inflation occurs when demand for goods and services exceeds the supply available in the market. When prices rise, consumers will usually face pressure to pay more for the same goods and services. This increases aggregate demand in the economy, which in turn can cause inflation. The results of this study support [38] which explains that price increases have an effect on inflation. Inflation is a fundamental concept in economics that refers to a general increase in the prices of goods and services in an economy over a certain period of time. In a macroeconomic context, inflation is often measured using the consumer price index (CPI) or producer price index (PPI), which record changes in the prices of a group of goods and services that are considered to represent consumer spending patterns or production costs. producer.

There are several causes of inflation that occur in an economy, and understanding these factors is important to analyze the impact of rising prices on inflation. One of the main causes of inflation is high demand. When consumer demand exceeds the supply of available goods and services, prices tend to rise in response to high levels of demand. This often occurs in rapidly growing economic situations, where consumer spending levels increase significantly. Apart from that, increasing production costs can also be a driver of inflation. Production costs can increase for a variety of reasons, including increases in labor wages, increases in raw material or energy prices, or changes in government regulations that increase production costs for the company. When production costs increase, companies tend to increase the prices of their products to maintain their profit margins, which in turn can lead to inflation.

External factors can also contribute to inflation. For example, fluctuations in global commodity prices such as crude oil, metals, or agricultural products can affect prices in the domestic market. Changes in currency exchange rates can also affect import prices, which can then affect the level of inflation in a country. The impact of price increases on inflation can be very significant. When general prices rise, consumers' purchasing power can be negatively affected. This is because consumers have to spend more money to buy the same goods and services, which in turn can reduce their purchasing power for other goods or reduce their savings.

In addition, high or uncontrolled inflation can cause broader economic instability. High inflation can create uncertainty in the market, disrupt business planning, and reduce consumer and investor confidence. This could result in reduced investment and slower economic growth in the long term. Governments and central banks usually try to control the inflation rate using monetary policy. One of the main tools used to control inflation is interest rates. When central banks increase interest rates, borrowing costs increase, thereby reducing consumer spending and corporate investment, which in turn can reduce inflationary pressures. Conversely, when the central bank lowers interest rates, this can stimulate consumer spending and investment, which can lead to rising prices and inflation. Apart from monetary policy, the government can also use fiscal policy to control inflation. Fiscal policy involves regulating government revenues and expenditures, including taxes and government spending. For example, the government may reduce public spending or raise taxes to reduce aggregate demand and prevent undesirable price increases. However, it is important to remember that not all price increases have a negative impact on inflation. Some price increases may be temporary and unsustainable, while others may be part of normal processes in the economic cycle. In addition, controlled moderate inflation can have positive impacts, such as encouraging investment and sustainable economic growth. Overall, the impact of price increases on inflation is complex and can vary depending on a variety of factors, including how large the price increase is, which sectors are affected, and the economic policies implemented by governments and central banks. Therefore, it is important to carry out careful analysis and consider various factors when considering the impact of rising prices on inflation in an economy. The results of this study support [39] which explains that price increases have an impact on inflation.

The Effect of Inflation on Per Capita Income

Inflation has a significant effect on per capita income. Controlled and moderate inflation can stimulate consumption and investment because people may be inclined to purchase goods and services before prices rise further. This can encourage greater economic activity and increase per capita income. The impact of inflation on per capita income is a complex and important topic in economics. Inflation, which is a general increase in the prices of goods and services in an economy, has a significant impact on the well-being of individuals and society as a whole. The results of this research are in accordance with Fadilla & Purnamasari (2021) who explain that inflation has an effect on economic growth.

Controlled moderate inflation can stimulate economic growth. When inflation is under control, manufacturers may feel more confident to increase production and hire more workers. This can result in an increase in per capita income if economic growth is faster than the rate of inflation. Inflation rates can also affect different income groups differently. Groups on fixed or low incomes may be hit harder by inflation because they have to spend a larger portion of their income on basic needs. On the other hand, groups with higher incomes or with more diverse financial assets may be better able to handle the impact of inflation.

The government and central bank have various policies to control inflation and mitigate its impact on per capita income. Monetary policy, such as interest rate setting or quantitative policy, is often used to control inflation. On the other hand, fiscal policy, such as setting taxes and government spending, can also influence the level of inflation and per capita income.

The impact of inflation on per capita income is a complex topic and is influenced by various economic factors. Although inflation can reduce an individual's purchasing power and cause economic uncertainty, its impact can vary depending on the level of inflation, type of inflation, and economic policies implemented. Therefore, it is important to understand the mechanism of inflation and how it affects per capita income in order to formulate effective policies to control inflation and protect the overall welfare of society.

The Impact of Price Increases on Per Capita Income through Inflation

Price increases that have a positive effect on inflation and per capita income can occur in certain contexts, especially if the price increase is accompanied by healthy economic growth and controlled price stability. Controlled price increases can stimulate economic growth by providing incentives for producers to increase production and investment. In situations where rising prices are accompanied by strong demand and increased production levels, this can create new jobs and increase per capita income. Price increases can encourage investment and consumption if managed well. If people believe that price increases are temporary and the economy continues to grow, they may be more inclined to invest their money or make large purchases such as homes or vehicles, which in turn can increase per capita income. An increase in the price of basic necessities, such as food and fuel, can have a direct impact on people's purchasing power and per capita income [6]. Price increases can be an incentive for companies to seek innovative solutions and improve their operational efficiency. This could include developing new technologies, more efficient use of resources, or product diversification. These steps can increase company productivity, which can ultimately increase per capita income. If price increases coincide with an increase in global demand for goods and services from a particular country, this can increase the competitiveness of exports. Higher prices can help increase income from exports, which in turn can contribute to an increase in per capita income in the country. Controlled and stable inflation can stimulate economic growth and increase per capita income if balanced with a corresponding increase in income. Therefore, it is important to understand the role of inflation in this process and take appropriate policy measures to control it according to specific economic conditions.

Conclusions and recommendations

Conclusion

Based on the discussion, it can be concluded as follows: The impact of price increases has a significant effect on per capita income. Controlled price increases can stimulate healthy economic growth. This can create an environment where per capita income increases significantly due to new business opportunities, industrial sector growth and increased investment. The impact of price increases has a significant effect on inflation. Price increases in general are one of the main factors causing inflation. When the prices of goods and services rise continuously in the economy, this leads to inflation. If price increases are sustainable, then the inflation rate tends to increase. Inflation has a significant effect on per capita income. Controlled and moderate inflation can stimulate economic growth and increase per capita income if balanced with a corresponding increase in income. The impact of price increases affects per capita income through inflation. Price increases directly affect inflation, which can then affect per capita income. If rising prices cause high inflation, the impact will spread to per capita income by reducing people's purchasing power. Conversely, if inflation is controlled, price increases can increase per capita income.

Suggestion

The following are several policy suggestions that can be considered to manage the impact of rising prices on per capita income through inflation, including: The central bank needs to use appropriate monetary policy to control inflation. This includes setting interest rates in accordance with economic and financial market conditions, as well as open market operations to manage the money supply.

The government can strengthen price monitoring and encourage competition in the market to prevent unreasonable price increases. This can help control inflation and protect people's purchasing power.

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